Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Romero	Analyst:	Jane Tolman	Bill Number:	SB 1433
Related Bills:	See Legislative History	Telephone:	845-6111	Amended Date:	April 1, 2004
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT:

Trauma Care Fund

SUMMARY

This bill would establish the Trauma Care Fund for taxpayer contribution designation on the personal income tax return.

This analysis does not address the Health and Safety Code relating to the Trauma Care Fund Advisory Board.

SUMMARY OF AMENDMENTS

The amendments of April 1, 2004, made technical changes that would not affect the department.

The amendments of March 22, 2004:

- removed the provision that would require one voluntary contribution to be removed from the tax return before the Trauma Care Fund could be added,
- removed the repeal provision that would have limited the Trauma Care Fund to five years on the tax return,
- and deleted the Vehicle Code provisions.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to establish the Trauma Care Fund Advisory Board and create an additional funding source for trauma care centers.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2005, and would apply to tax returns filed on or after that date. Since this fund does not have queuing language, the fund would first appear on the 2004 personal income tax return filed in 2005.

Board Position:			Department Director	Date
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____ N	____ OUA	__X__ PENDING	Gerald H. Goldberg	4/26/04

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal tax law provides a true checkoff to direct $3 of a taxpayer's tax liability to the presidential election fund. Designation of the $3 amount does not affect a taxpayer's tax liability or refund amount.

Current state tax law allows taxpayers to make contributions of their own funds (not tax liability) on their tax returns to the 11 voluntary contribution funds listed on the state income tax return. Each fund provides for the reimbursement of the Franchise Tax Board's (FTB's) and the Controller's actual costs to administer the fund.

Except for the California Seniors Special Fund, which has no sunset date, the voluntary contribution funds have various sunset dates. The attachment shows the specific sunset dates for each voluntary contribution fund and indicates those funds that must meet a minimum contribution test to remain on the return. The initial minimum contribution amount is $250,000, which is indexed annually for each fund.

<u>THIS BILL</u>

This bill would establish the Trauma Care Fund and would allow taxpayers to designate their own funds (not tax liability) for contribution to the fund on their tax returns in full dollar amounts of $1 or more. Each signatory on a joint return may make the contributions individually. The designations for any taxable year would be made on the initial return for the taxable year and, once made, would be irrevocable.

Beginning September 1, 2006, and each September thereafter, this bill would require the fund to meet the $250,000 minimum contribution test. If FTB estimates that contributions made under this bill will be less than $250,000, as indexed for inflation, the law authorizing designations for this fund would be repealed.

This bill would specify that if payments and credits reported on the return do not exceed the taxpayer's liability, then the taxpayer's return would be treated as if no designation has been made. If no designee is specified, a designated contribution amount would be transferred to the General Fund.

This bill would specify that if a taxpayer designates more than one fund, but the contribution amount available is less than the total amount designated, the contribution is distributed among the designees on a pro rata basis.

Upon appropriation by the Legislature, the moneys from this fund would be allocated to: 1) FTB and the Controller for reimbursement of costs incurred in administering this fund, and 2) the Trauma Care Fund for trauma center funding. This bill specifies that this fund would be an additional funding source for trauma centers and may not be used to replace other funding sources.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

TECHNICAL CONSIDERATION

Current state law provides a general method for pro rating contributions and applying contributions without a designee. This bill contains language duplicative of these provisions. Amendment 1 would remove these duplicate provisions and eliminate any possible confusion. .

LEGISLATIVE HISTORY

SB 1736 (Bowen 2003-2004) would create a new process to allow taxpayers to make voluntary contribution designations on the personal income tax return.

PROGRAM BACKGROUND

Eleven voluntary contribution funds appeared on the 2003 California personal income tax returns. Total contributions to these funds have varied from approximately $3.4 million in 1989/1990 to approximately $3.9 million in 2001/2002. The number of individuals contributing (first tabulated in 1993 remains fairly constant at approximately 140,000 or slightly less and 1% of all taxpayers.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, and *New York* allow for taxpayer contribution designations the personal income tax returns. These states were reviewed because of the similarities between California income tax laws and their tax laws.

Florida does not have a personal income tax but allows contribution designations on the state's motor vehicle registration and renewal forms.

None of these states provide a voluntary contribution comparable to the one proposed by this bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Assuming that the minimum level of contributions ($250,000) is achieved each year this fund is on the return, that the fund is placed on the 2004 return filed in 2005, and that an itemized deduction is allowed and claimed for each contribution, potential revenue losses would be very minor. The revenue loss would be on the order of $15,000 annually beginning with the taxable year the itemized deduction is claimed on the tax return (2005/2006 FY). The loss would be attributable to itemized deductions claimed for the contributions in the taxable year following the contributions.

Revenue Impact *			
Fiscal Year	2004/2005	2005/2006	2006/2007
Revenue Loss	$0	-$15,000	-$15,000

*This estimate has been rounded.

Any possible changes in employment, personal income, or gross state product that might result from this measure are not taken into account.

Revenue Discussion

According to departmental data, the total amount of existing voluntary contributions to all funds was nearly $4 million for fiscal year 2002/2003 with an average of $280,000 per individual designated fund.

Assuming contributions equal or exceed the minimum contribution threshold and all contributors itemize deductions, the annual revenue loss would be on the order of $15,000 by applying an average marginal tax rate of 6% ($250,000 x 6% = $15,000).

POLICY CONCERNS

The placement of voluntary contributions on the income tax returns limits the amount of space available for tax-related items. The inclusion of non-tax related information could ultimately cause the tax form to become three pages, which is unprecedented among other states and the Internal Revenue Service. A three-page return also would cause the department to incur significant costs for printing, handling, and storage.

Generally, voluntary contributions follow a queuing method that requires that an existing voluntary contribution fund come off the return before a new one may be added. Without the queuing language, the tax form may become three pages. Therefore, the author may wish to consider re-adding the queuing language deleted in the March 22, 2004, amendments.

This bill does not limit the number of years for the voluntary contribution to remain on the return. Thus, the Trauma Care Fund would remain on the personal income tax return indefinitely. Recent voluntary contributions have been enacted with a five-year limitation, which allows periodic review for effectiveness by the Legislature.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 1433
As Amended April 1, 2004

AMENDMENT 1

On page 5, strike out lines 11 through 20 and insert:

designation had been made.